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SUBJECT: U/S LEVEY URGES QATAR TO PREVENT IRANIAN BANKS  
FROM GAINING TOE HOLD IN QATAR'S FINANCIAL SECTOR

Classified By: CDA Michael A. Ratney, reasons 1.4 (b) and (d).

¶1. (C) During February 25 meetings, Treasury Under Secretary for Terrorism and Financial Intelligence Stuart Levey commended Qatar's financial leaders for the progress they have made in expanding Qatar's financial services, warned them of deceptive practices being undertaken by Iranian banks and the Iranian Central Bank, and urged them to prevent Iran from gaining a toehold in Qatar's growing financial sector. All Qatari officials stressed the limited Iranian presence in Qatar's financial sector, expressed their desire to avoid illicit activity, and underscored the utility of having UN cover for any restrictive actions Qatar would take against its neighbor.

¶2. (C) Qatari interlocutors included Minister of State for Foreign Affairs Ahmed Al-Mahmoud, Central Bank Governor Sheikh Abdullah Bin Saoud Al Thani, Deputy Central Bank Governor Sheikh Fahad Bin Faisal Al Thani, Minister of Finance and Acting Minister of Economy and Commerce Yousef Hussain Kamal, CEO of Qatar National Bank Ali Shareef Al-Emadi, and Qatar Financial Center Regulatory Authority (QFCRA) Chairman and CEO Phillip Thorpe. USG participants included U/S Levey, Charge, Treasury policy advisors Daniel Harris and Molly Millerwise, NEA/Iran economic officer Bob Gerber, and Embassy Economic Officer.

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MFA Seeks UN Cover for Scrutiny of Iran  
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¶3. (C) Al-Mahmoud (the MFA's number two official) stressed that Qatar has "no important financial ties with Iran," and said that Iranian Foreign Minister Mottaki complained privately to the Qataris that they have "no business" with Qatar when compared to UAE. Al-Mahmoud cautioned that "we are (geographically) close to Iran and have to find a way to have relations." Citing Qatar's support for and implementation of UNSCRs 1737 and 1747, he said it is easier to take actions against Iran when there is a UNSC resolution as cover. He assured U/S Levey that the GOQ is monitoring closely Bank Saderat's activities and "up to now" has not seen any strange activity in Qatar (Note: Bank Saderat is the only Iranian bank with a branch in Qatar -- see paragraph 5).

¶4. (C) U/S Levey noted that the current draft of a new UNSCR on Iran is more explicit than past resolutions in calling for special scrutiny on Iranian financial institutions, especially Bank Melli and Bank Saderat; the adoption of the resolution would provide a good opportunity to review the licenses of Iranian banks currently operating in the region. In response to Al-Mahmoud's question on "recent publicity about a U.S.-Iranian economic dialogue," U/S Levey explained that U.S. and Iranian representatives met in a multilateral context to review the October 2007 Financial Action Task Force (FATF) statement on Iran, which warned about the risks

associated with Iran's lack of AML/CFT controls. Al-Mahmoud concluded that vigilance with Iranian financial institutions is "in our interests, though we have to deal in the context of our international relations."

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Central Bank Cautious on Iran, Wants UNSCR  
Before Taking Any Action Against Bank Saderat  
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15. (C) U/S Levey told Qatar Central Bank (QCB) Governor Sheikh Abdullah that the international community is focused on Iran's use of the banking system in the financing of its proliferation activities and that many European banks have halted business with Iran as a result. Moreover, the next draft UNSCR on Iran likely includes language calling for increased vigilance on all Iranian financial institutions. Sheikh Abdullah began by noting that Qatar has one branch of an Iranian bank (Bank Saderat), but it is very important for the Central Bank to approach change with care, as officials do not want to spawn "front relationships" with other banks in Qatar. Sheikh Abdullah said that Qatar receives the relevant lists from the UN and up to now has not found any accounts in Qatar held by listed entities. He confessed that "I know we have to do more," especially as Iran's interest in using the Gulf for financial services grows. He added that Qatar would be upgrading its AML/CFT committee and Financial Information Unit as part of an ongoing IMF assessment, and noted that banks' compliance officers need more training. Sheikh Abdullah said that since the most recent UNSCR on Iran was enacted, the Central Bank has been trying to eliminate Bank Saderat's mobility of funds and restrict its activities.

16. (C) U/S Levey stressed that Iran engages in a pattern of activity to deceive financial institutions, and it is likely Iran will use its Central Bank to open other avenues of business for its banking institutions. Sheikh Abdullah responded that Qatar advised banks on the receiving end of approaches by Iran, specifically Qatar National Bank and Doha Bank, that "now is not the right time to open branches in Iran." He added that Iran has been sending the message that Qatari banks are welcome to establish branches in Iran, but the QCB won't give approval at this time for any further expansions. U/S Levey welcomed this cautious approach and noted that the USG listed Bank Saderat because it is involved in sending money to terrorist organizations. Sheikh Abdullah responded that having the bank named in an UNSCR would help Qatar take action against it. Asked directly by U/S Levey if the QCB would reexamine Saderat's license if it was included in the upcoming UNSCR, Sheikh Abdullah demurred, saying "We will discuss in the future how to squeeze down the bank's license." He nevertheless assured Levey that the bank's outside activities would be "zero" and internally restricted to retail services for the local Iranian community.

17. (C) Asked by U/S Levey about Qatar's regime against bulk cash smuggling, Deputy Governor Sheikh Fahad said Qatar's AML/CFT committee is studying the issue and in discussion with the MENA FATF about how to improve procedures. (Note: Qatar does not require cash declaration, but travelers must disclose amounts over 100,000 Qatar Riyals or 27,473 USD if asked). U/S Levey responded that ultimately the USG believes a mandatory declaration system is the best way to deal with the problem of cash couriers and that Iran in particular may move to moving more cash since its banks are being monitored closely. Sheikh Abdullah expressed confidence that airport x-ray machines can detect bulk cash in excess of about 30,000 Qatari Riyals (8,242 USD) and claimed to have "tested the system" by carrying that amount on a recent trip.

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Finance Minister Claims Money for Palestinians Sent  
Through Right Channels to Legitimate Recipients  
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18. (C) Finance Minister Kamal likewise noted that Qatar's

trade and banking activity with Iran is small and assured U/S Levey that Qatar has a "first class control system." He added that Qatar wants to brand itself as a financial center for the entire MENA region and therefore needs a financial system that people believe in. Moreover, Qatar is following developments in Europe closely - such as the three German banks which recently cut off relations with Iran - and adjusting its risk perceptions accordingly.

¶9. (S) U/S Levey expressed concern over allegations that Qatari charities send money to Hamas, noting that the Sheikh Eid charity is reported to have sent money through Qatari banks to the Al-Salah society, a U.S.-designated organization linked to Hamas. Kamal had not heard of the Al-Salah society but assured his interlocutor that the GOQ regulates charitable activity closely (via the Qatar Authority for Charitable Activities) and sends official contributions to the Palestinians through the right channels (i.e., the Arab League).

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Qatar National Bank Eager to Avoid Illicit Iranian Activity  
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¶10. (C) U/S Levey described USG concerns about Iran's deceptive banking practices for Qatar National Bank (QNB) CEO Al-Emadi (Note: QNB is 50 percent government owned and Qatar's largest bank with about 45 percent of total banking assets in the country). Al-Emadi noted that QNB "abides by all Qatar Central Bank guidelines and regulations," and although it has had a representative office in Iran for about 6 years, QNB has "almost frozen business" with Iran over the last 3-4 years. Al-Emadi noted that QNB is historically very conservative; its major partners are in Europe and the U.S., so it takes Western concerns about Iran very seriously. He added, per the adage that "banks survive not because of the deals they do but because of the deals they don't do," QNB is not comfortable with the business environment in Iran, though there are a lot of trade finance opportunities there.

¶11. (C) Saleh Ahmed Nofal, QNB's Senior Compliance Manager, said his department has 20 years of experience and told U/S Levey that QNB takes compliance and anti-money laundering issues very seriously. He said QNB receives regular updates from the QCB, World-Check system, and the Office of Foreign Assets Control (OFAC), and now has a "second stage" of World-Check whereby the bank checks existing customers against relevant watch lists. Al-Emadi added that QNB always checks into prospective account holders before opening an

account for them, and if anyone is on U.S. lists (not just international ones), QNB notifies the QCB of the attempt to open an account and refuses the new business.

¶12. (C) Asked by U/S Levey about the presence of a Bank Saderat branch in Qatar, Al-Emadi replied that QNB deals with that bank only for local check clearing. U/S Levey warned that Iranian banks are having increasing difficulty doing business in Europe and are trying to replace those lost relationships with new ones in the Gulf. Al-Emadi responded that QNB does not allow Iranian banks to take their names off the SWIFT system, and Nofal added that QNB applies the FATF recommendation to acquire full details on a prospective customer before doing anything with the account.

¶13. (C) U/S Levey showed QNB officials an example of a public Iranian bid for a new nuclear power plant that referenced a bank account that had been opened by the Iranians at Austrian Bank Creditanstalt, ostensibly for their diplomats in Vienna. He warned that Iran often uses the supposed respectability of its existing banking relationships to try to establish new ones. Al-Emadi replied that the main challenge is stopping Iran from dealing with and through third parties and said he would welcome any information from the USG to augment current lists and improve the AML processes. U/S Levey pointed out that Iran is now starting to use its Central Bank to act on behalf of sanctioned entities. Al-Emadi replied that while banks must do business with each other, QNB wants to avoid

being linked to anyone with bad ties and would welcome regular lists of suspicious people or accounts to make sure money is not funneled into gray areas. He added that because Bank Saderat has a branch in Qatar, QNB is "obligated by law" to deal with Saderat (e.g., on check clearing), but QNB has not yet been approached by Iranian banks, which "don't seem to be paying much attention to Qatar." U/S Levey concluded by expressing his understanding that this was the case in general, but also warning that Iran will likely begin to look to Qatar as its existing relationships deteriorate and Qatar's financial sector grows.

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Qatar Financial Center Regulatory Authority Commends  
GOQ Efforts to Unify and Strengthen Regulation  
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¶14. (C) QFCRA Chairman and CEO Phillip Thorpe gave the delegation a detailed explanation of the genesis of the QFC and the regulatory authority's current and future place in Qatar's financial architecture. He agreed with U/S Levey that the Iran issue is primarily a preventative one in Qatar -- i.e., keeping Iranian entities of concern from establishing relationships in the country. Thorpe pointed out that the QFC's establishment means that Qatar now has a second financial system operating under a parallel legal and regulatory environment and noted that the emphasis is to attract business not already being done in Qatar. Stressing that the QFC was always meant by GOQ leadership to be a catalyst for wider change, Thorpe assessed that Qatar will probably formally merge all current regulatory bodies in the country into one unified regulator in the next couple of months (Note: The Ministry of Finance announced a plan to form a single regulatory regime in July 2007 but it has yet to be implemented).

¶15. (C) Thorpe assessed that "there are no huge alarm bells" in Qatar's domestic financial services environment, but conceded that the Central Bank does not seem to recognize the existence of informal transfer networks (i.e., hawalas). Managing Director for Supervision Michael Lesser added that an IMF report on Qatar will soon be reviewed at the MENA FATF; it will include a number of corrective actions for adherence to FATF recommendations on AML/CFT controls. Lesser noted that the QFCRA has been pleasantly surprised by due diligence procedures on prospective customers of Qatari banks and exchange houses.

¶16. (C) Asked by U/S Levey why Qatar's AML/CFT laws remain untested by enforcement, Thorpe replied that this was hard to judge, but he "would like to believe that bad activity is mainly in other places in the Gulf...if you're hiding needles you look for big haystacks and Qatar is not one of those." Thorpe added that Qatar appears to take financial crime seriously and noted that the Attorney General has a clear mandate not to tolerate bad behavior. For example, the GOQ sacked three Ministers of State, one for corruption and two for breaking exchange rules during initial public offerings, and put the CEO of a major bank in prison for 90 days for insider trading.

¶17. (C) U/S Levey noted that despite Qatar's progress, its ambitions for its emerging financial sector could be

threatened by its political support for Hamas, as U.S. and other institutions will be quite cautious about doing business with anyone with possible Hamas ties. He urged the QFCRA to pass the message to the GOQ that the government's tolerance of Hamas will prevent Qatar from becoming a world-class financial center. Thorpe replied that the structure of the new regulator and the oversight board calls for major international participation, and it will be hard for Qatar, once it is up and running, to be indifferent to international concerns on Hamas.

¶18. (C) Charge questioned whether the GOQ has internalized that it will be ceding control of financial regulation to outsiders, and Thorpe responded that he thinks officials have

made this leap. He said in particular Prime Minister and Foreign Minister Hamad Bin Jassim Al Thani (HBJ) -- a key economic power-broker -- has taken on board that he cannot interfere with the regulator. Thorpe added that it might suit HBJ to have a separate internationally-accountable regulator as a place to lay blame when Qatari business interests complain about losing their privileges.

¶19. (C) Thorpe assessed that harmonization of regulation activities in advance of the new regulator is proceeding well, and the Central Bank is increasingly helpful in sharing information with the QFC, though it is not always clear they are asking the right questions of banks. Lesser added that the QFCRA has been working closely with Qatar's FIU -- e.g., participating in the recent IMF assessment meetings -- and expects to gain a seat on the national AML/CFT committee. In conclusion, Thorpe declared that the new law "will change the accountability of the government."

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COMMENT: Iran Not a Major Problem...Yet  
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¶20. (C) The high level of GOQ access and interest in U/S Levey's trip underscores the seriousness with which Qatar monitors U.S. and international actions on Iran. Although wary of Iran, Qatar's financial leaders want explicit UN cover to take any concrete sanction actions against Iranian financial institutions. We believe the Central Bank is overly optimistic in its stated ability to track and limit nefarious Iranian activity and bulk cash smuggling, but continued USG engagement -- particularly at senior levels -- will help sensitize the Bank and GOQ to USG concerns.

¶21. (U) Under Secretary Levey's delegation cleared this message.  
RATNEY